

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division
Public Programs Branch *

RESOLUTION T-16550
October 25, 2001

RESOLUTION

RESOLUTION T-16550. APPROVAL OF CALIFORNIA HIGH COST FUND-A BUDGET AND SURCHARGE RATE FOR JULY 1, 2002 TO JUNE 30, 2003 TO COMPLY WITH THE REQUIREMENTS OF PUBLIC UTILITIES CODE SECTIONS 270-281.

SUMMARY

On May 15, 2001, the California High Cost Fund - A (CHCF-A) Administrative Committee (AC) ¹ filed with the Executive Director of the Public Utilities Commission its proposed budget for July 1, 2002 to June 30, 2003.

This resolution approves the budget of \$ 53,077,950 for fiscal year (FY) 2002-03 for the CHCF-A program and increases the surcharge rate to 0.36% effective July 1, 2002 for the CHCF-A Administrative Committee Fund ² for FY 2002 - 03. The adopted surcharge of 0.36% will remain in effect for FY 2002-03 until further revised by the Commission. The proposed budget incorporates organizational and administrative expenses associated with the implementation of Public Utilities (P.U.) Code Sections 270-281 (Chapter 1.5 to Part 1, Division 1 of the P.U. Code). These expenses are the result of Senate Bill 669 (SB 669), which became effective on January 1, 2000, as amended by Senate Bill 742, signed by the Governor in 2001, requiring the transfer the funds of the CHCF-A program to the State Treasury beginning October 1, 2001. The proposed budget likewise includes the

¹ Pursuant to Public Utilities Code § 275 (a), the CHCF-A AC will function as an Advisory Committee, not as an Administrative Committee, on October 1, 2001 and thereafter.

² Pursuant to Public Utilities Code § 270 (a) (1), the fund name will be California High Cost Fund A-Administrative Committee Fund.

amount of \$10 million for Rural Telecommunications Infrastructure grants as required by Assembly Bill 140.³

BACKGROUND

The California High Cost Fund (HCF) was implemented by D.88-07-022 as modified by D.91-05-016 and D.91-09-042 to provide a source of supplemental revenues to three mid-size and seventeen small Local Exchange Companies (LECs) whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service. The HCF was funded by an increment in Pacific Bell's (Pacific) intrastate carrier common line charge (CCLC). D.94-09-065 changed the funding source from an increment in the CCLC to an all end-user surcharge.

D.96-10-066 changed the name of HCF to CHCF-A and created the California High Cost Fund-B (CHCF-B). This decision included the three mid-size LECs in the CHCF-B program for the purpose of determining universal service subsidy support and maintained the CHCF-A for the 17 small LECs.

Resolution T-16092 approved the transfer of administrative control of the CHCF-A to the Commission staff effective January 1, 1998, and appointed three Commission staff members as committee members of the CHCF-A Trust Administrative Committee (AC). The AC was charged with the responsibilities of administering the CHCF-A on behalf of the Commission. D.98-06-065 renamed the committee as CHCF-AC and revised the governance of the CHCF-A consistent with State rules and procedures.

In October 1999, PU Code § 270-281 were codified as a result of the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677). § 270(b) requires that the monies in the CHCF-A and five other funds may only be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act.

On January 24, 2001, the Telecommunications Division (TD) called for an informal working group⁴ and conducted a meeting to develop a transition plan to change the current CHCF-A process from a calendar year to a fiscal year basis. Recognizing that the small LECs' books of account, the federal universal service program, and the CHCF-

³ Assembly Bill 140 § 7 adds § 276.5 to the Public Utilities Code ordering the CPUC to establish a grant program for aid in the establishment of telecommunications service in areas not currently served by existing local exchange carriers. The funding level is set not to exceed \$10 million per year starting July 1, 2002.

⁴ Parties in this informal working group included Garth Black of Cooper, White & Cooper, LLP, David Tutt of Moss Adams, Dan Douglas of Ponderosa Telephone, Jeff Beck of Beck & Ackerman, Virginia Ragasa and Elaine Yee of AT&T, Greg Geminiani of Pacific Bell, Charles Born of Citizens, David Shantz, Hassan Mirza, Richard Fish, Angela Young and Geraldine Carlin of TD.

A implementation rules are based on a calendar year basis, parties in this informal working group concurred to establish two separate processes for the CHCF-A. The current process to determine CHCF-A support on a calendar year basis should remain. The process for the funding of the program for budgetary purposes also required the conversion to a fiscal year basis consistent with the State Budget process to facilitate the implementation of PU code § 270(b).

Procedurally, the program budget will need to be presented to the Commission for approval at least 13 months prior to the program budget year.⁵ Therefore, the earliest conversion that could take place for the CHCF-A is for the FY 2002-2003. After a thorough discussion, attendees of this informal working group established a timetable for the conversion of the CHCF-A program budget from a calendar year to a fiscal year basis for budgetary purposes⁶. Resolution T-16521 dated June 14, 2001 ordered the submission by the CHCFA-AC on or before June 22, 2001, of a letter request to the Commission Executive Director proposing a CHCF-A program budget and recommending a CHCF-A surcharge rate for FY 2002-2003. For subsequent Fiscal Years, the CHCF-A AC shall submit the letter request to the Commission Executive Director on or before June 1 (or the next business day if June 1 is not a business day).

Since the program payments are budgeted based on a fiscal year basis and following the understanding reached in the informal working group, the small LECs are still required to submit on or before October 1, 2002, advice letters covering their CHCF-A requirements or annual program support for Calendar Year 2003.

The AC's May 15, 2001 letter request to the Executive Director seeks approval of the July 1, 2002 to June 30, 2003 budget of \$ 43.250 million and a surcharge rate of 0.210%. This budget request was filed in accordance with Ordering Paragraph 7 of Resolution T-16521. Further, this letter request is consistent with similar requests for other public programs that have submitted July 1, 2002 to June 30, 2003 budgets for Commission consideration.

In August 2001, the California Legislature and the Governor approved an appropriation for the CHCF-A program budget as part of the State Budget for FY 2001-02 including the amounts necessary to implement P.U. Code § 270 (a) (1), 270 (b), 270(c), 274, and 275 on October 1, 2001. On this date, as required by P.U. Code § 275 (b), the CHCF-A fund was transferred to the State Treasury from the bank trustee.

⁵ See Section 5 of Resolution T-16409.

⁶ Ordering Paragraph 7, Resolution T-16521.

The Commission in Resolution T-16589, dated October 10, 2001 adopted the CHCF-A budget for January through June 2002 which set the CHCF-A surcharge rate at 0.30% beginning January 1, 2002 until further revised by the Commission.

NOTICE/PROTESTS

Notice of the AC's budget letter request was published in the Commission Daily Calendar of May 16, 2001. No protest to this letter request has been received.

DISCUSSION

In this Resolution, the Commission adopts the following:

- The CHCF-A program budget for July 1, 2002 to June 30, 2003 in the amount of \$ 53,077,950.
- The surcharge rate for the CHCF-A for FY 2002-03 will be increased to 0.36% effective July 1, 2002 until revised by the Commission.

In the CHCF-A informal working group held on January 24, 2001 a timetable for the conversion of the CHCF-A program budget from a calendar year to a fiscal year basis was adopted. Following this timetable, the TD Director wrote a letter to the 17 small LECs on March 7, 2001 requiring them to submit their projected funding requirements for the period July 1, 2002 to June 30, 2003 on or before May 1, 2001.

TD summarized the submissions made and presented the summary to the CHCF-A AC in its May 14, 2001 meeting. A letter to the Commission's Executive Director was sent by the AC proposing \$43.250 million for the CHCF-A budget and a surcharge rate of 0.210% effective July 1, 2002. Of the \$43.250 million budget, \$ 41.725 million represents program payments and \$1.525 million is for administrative expenses. Considering that FY 2002-03 represents the first year that the CHCF-A budget is developed on a fiscal year basis, projections were based on the program requirements as submitted by the small LECs in their May 2001 submissions, the CY 2001 budget as adopted in Resolution T-16521, and estimated figures for the first six months of CY 2002.

Since the July 1, 2002 to June 30, 2003 budget is for budgetary purposes only, the small LECs will submit advice letters requesting for CHCF-A program support by October 1, 2001 with the Commission adopting the resolution covering CY 2002 payments by December 2001.

In August 2001, TD was informed of the approval of the State Budget for FY 2001-02 and the amounts included in the State Budget for CHCF-A for the last nine months of FY 2001 –2002 to implement P.U. Code § 270 (a) (1), 270 (b), 270(c), 274, and 275 on October 1, 2001. This required TD to revisit the previously proposed budget and surcharge rate for Commission adoption for the CHCF-A program for FY 2002-03. The revisit of CHCF-A for FY 2002-03 takes into account the State Budget, the program fund balances as of August 1, 2001, the projected payments and administrative expenses, including the costs required to implement P.U. Code § 270 (a) (1), 270 (b), 270(c), 274, and 275, and minimum ending cash balances as of June 30, 2003.

In October 2001, the Commission was likewise informed of the approval of Assembly Bill 140. Accordingly, TD recommends the addition of \$10 million to the CHCF-A budget. In FY 2002-03, it is expected that only the CHCF-A will be an eligible funding source because of restrictions in the bill on the use of CHCF-B funds until certain issues are resolved by the United States Supreme Court and the CPUC. The slight increase in the CHCF-A surcharge to fund the FY 2002-03 grants will be offset by a reduction in the CHCF-B surcharge by an equivalent amount in order to reflect the CHCF-A surcharge increase.

Based on the sharp downturn of the telecommunications revenues subject to surcharges reported to the Commission by telecommunications carriers in recent months and the growing concerns about the health of the national economy, the estimated telecommunications revenues subject to surcharges are revised to \$15,873 million for FY 2002-2003. The revised forecast for FY 2002-03 represents a growth rate of 1.8% (UCLA Anderson Forecast, September 17, 2001) from FY 2001-02.

TD recommends Commission adoption of a FY 2002-03 budget of \$53.078 million and of increasing the surcharge rate to 0.36% for FY 2002-03 for the CHCF-A program. Of the \$53.078 million adopted budget for FY 2002-03, \$41.720 million is for claim payments or monthly support to the small LECs, \$10,000,000 for Rural Telecommunications Infrastructure, \$10, 000 for a financial audit, \$500,000 for a compliance audit, \$600,000 for surcharge remittance audits, \$18, 000 for banking fees, \$8,500 for Advisory Committee expenses, \$151,000 for SB 669 Administrative/Staff Costs and \$70,000 for SB 669 inter-agency costs. The Advisory Committee expenses are composed of per diem of \$3,600, and travel and other expenses of \$5,000. The banking fees cover the operation and maintenance of the lockbox, which is estimated to cost \$1,500 a month. TD's recommendation of \$53.078 million is reasonable and should be adopted for FY 2002-03.

A CHCF-A surcharge rate of 0.36% effective July 1, 2002 is adopted and will remain in effect until revised by the Commission. The adoption of a surcharge rate of 0.36% will

result in funding the CHCF-A total expenses of \$53.078 million for FY 2002-03 and will leave an estimated fund balance of \$6,046,242 on June 30, 2003.

COMMENTS

In compliance with PU Code § 311 (g), the draft of this Resolution was mailed on July 24, 2001 to the 17 small LECs, the CHCF-AC, the parties on the service list of I.87-011-033. A copy of the cover letter of this mailing was also sent to each of the Commission certificated telecommunications carriers informing parties that this draft resolution is available at the Commission's website www.cpuc.ca.gov/static/industry/telco/resolutions/index.htm and is available for public comments. In addition, the Telecommunications Division (TD) informed these parties of the availability of the conformed resolution at the same website.

TD received no comments on this resolution.

FINDINGS

1. In October 1999, Public Utilities Code (PU) Code § 270-281 were codified as a result of the enactment of Senate Bill 669.
2. PU Code § 270(b) requires that the monies in California High Cost Fund-A (CHCF-A) Administrative Committee Fund may only be disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.
3. To comply with PU Code § 270(b), the Telecommunications Division (TD) called for an informal working group on January 24, 2001 to change the current CHCF-A process from a calendar year to a fiscal year basis.
4. Recognizing that the small Local Exchange Companies (LECs) books of account, the federal universal service program, and the CHCF-A implementation are based on a calendar year basis, parties in this informal working group concurred to establish two separate processes for the CHCF-A.
5. The current process to determine CHCF-A support payments on a calendar year basis should remain.
6. The process for the funding of the program for budgetary purposes should be converted to a fiscal year basis consistent with the State Budget process to facilitate the implementation of PU Code § 270 (b).

7. On March 7, 2001 the TD Director wrote to the 17 small LECs requiring them to submit on or before May 1, 2001, their projected program requirements for the period July 1, 2002 to June 30, 2003.
8. TD summarized the submissions of the small LECs and presented this summary to the CHCF-A Administrative Committee (AC) in its May 14, 2001 meeting.
9. On May 15, 2001, the CHCF-A AC sent a letter to the Executive Director requesting the approval of the CHCF-A July 1, 2002 to June 30, 2003 budget of \$43.250 million and a surcharge rate of 0.210%.
10. In August 2001, the TD was informed of the approval of the State budget and the amounts included for fiscal year 2001-02 to implement P.U. Code § 270 (a) (1), 270 (b), 270(c), 274, and 275 on October 1, 2001.
11. In October 2001, the Commission was likewise informed of the approval of Assembly Bill 140. Only the CHCF-A will be an eligible funding source because of restrictions in the bill on the use of CHCF-B funds until certain issues are resolved by the United States Supreme Court and the CPUC
12. The slight increase in the CHCF-A surcharge to fund the FY 2002-03 grants will be offset by a reduction in the CHCF-B surcharge by an equivalent amount in order to reflect the CHCF-A surcharge.increase.
13. The budget for the CHCF-A for July 1, 2002 through July 2003 of \$ 53, 077,950, as set forth in Appendix A of this resolution, is reasonable and should be adopted.
14. A surcharge level of 0.36% effective July 1, 2002 for the CHCF-A program should remain in effect for fiscal year 2002-03 until further revised by the Commission.
15. The small LECs are to submit on or before May 1, 2002 their projected payments for fiscal year 2003-2004 to the Telecommunications Division for budgetary purposes.
16. The small LECs are to submit on or before October 1, 2002, advice letters requesting their CHCF-A annual program support for Calendar Year 2003.
17. Starting with fiscal year 2003-04 and every fiscal year thereafter, the CHCF-A Advisory Committee should submit the letter request proposing the CHCF-A fiscal year budget and surcharge rate to the Commission Executive Director on or before June 1 (or the next business day if June 1 is not a business day).

18. The draft of this resolution was mailed to the 17 small LECs, the CHCF-AC, and the parties of record in I.87-11-033 on July 24, 2001. A copy of the cover letter of that mailing was also sent to each of the Commission certificated telecommunications carriers advising them of the availability of this draft resolution and the conformed resolution, when adopted by the Commission on the Commission's web site.

THEREFORE, IT IS ORDERED that:

1. The budget for the California High Cost Fund-A (CHCF-A) for July 1, 2002 to July 2003 of \$ 53,077,950, as set forth in Appendix A of this resolution, is adopted.
2. A surcharge level of 0.36% effective July 1, 2002 for fiscal year 2002-03 is adopted until further revised by the Commission. All certificated telecommunications carriers in California shall apply this surcharge rate on their end-users' bills rendered on or after July 1, 2002.
3. The small LECs are to submit on or before October 2, 2002 advice letters requesting for their CHCF-A yearly program support for Calendar Year 2003.
4. The small Local Exchange Companies (LECs) are to submit on or before May 1, 2002 their projected payments for fiscal year 2003-2004 to the Telecommunications Division for budgetary purposes.
5. Beginning with Fiscal Year 2003-04 and every Fiscal Year thereafter, the CHCF-A Advisory Committee shall submit the letter request proposing the CHCF-A fiscal year program budget and surcharge rate to the Commission Executive Director on or before June 1 (or next business day if June 1 is not a business day).

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 25, 2001. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners

APPENDIX A

CALIFORNIA HIGH COST FUND-A ADMINISTRATIVE COMMITTEE FUND PROGRAM BUDGET FOR FY 2002-03						
		ADOPTED CY 2001 ¹	ADJUSTED CY 2001 ²	ADOPTED JAN - JUNE 2002	PROPOSED FY 2002-2003	ADOPTED FY 2002-03
1	BEGINNING FUND BALANCE	\$ 12,502,843	\$ 12,502,843	\$ 2,635,061	\$ 10,812,837	\$ 3,568,692
	REVENUES					
2	PROJECTED BILLING BASE ³	\$19,414,000.000	\$18,355,749.996	\$7,580,500.000	\$19,847,680.000	\$15,873,000.000
3	SURCHARGE RATE	0.20%	0.20%	0.30%	0.21%	0.36%
4	SURCHARGE REVENUE ⁴	19,414,000	8,581,982	21,506,417	41,680,149	55,555,500
	OTHER INCOME					
5	INVESTMENT INCOME ⁵	524,034	456,049	0	0	0
6	INTEREST	0	0	0	0	0
7	PENALTY	0	0	0	0	0
8	TOTAL OTHER INCOME (L5+L6+L7)	524,034	456,049	0	0	0
9	TOTAL REVENUE (L4+L8)	19,938,034	8,968,031	21,506,417	41,680,149	55,555,500
	PROGRAM EXPENSE					
10	CLAIM PAYMENTS ^{6,7}	21,969,360	0	0	41,725,000	41,720,350
11	AB 140 RURAL TELECOMMUNICATIONS INFRASTRUCTURE EXPENSE ⁸	0	0	0	0	10,000,000
12	TOTAL PROGRAM EXPENSE (L10 + L11)	21,969,360	16,741,630	20,440,819	41,725,000	51,720,350
	AUDITS					
13	FINANCIAL AUDIT	10,000	5,000	10,000	100,000	10,000
14	COMPLIANCE AUDIT	0	0	0	500,000	500,000
15	REMITTANCE AUDIT	0	0	0	500,000	500,000
16	CLAIMS AUDIT	0	0	0	0	0
17	TOTAL AUDITS (L13+L14 +L15+L16)	10,000	5,000	10,000	1,200,000	1,110,000
	BANKING FEES ⁹					
18	TRUST	15,000	17,450	0	0	0
19	LOCKBOX	5,560	5,250	9,000	0	18,000
20	TOTAL BANKING FEES (L18+L19)	20,560	22,700	9,000	0	18,000
	COMMITTEE EXPENSES					
21	PER DIEM	0	900	1,800	0	3,800
22	TRAVEL & OTHER EXPENSES	0	1,250	2,500	0	5,000
23	TOTAL COMMITTEE EXPENSES (L21+L22)	0	2,150	4,300	0	8,800
24	TOTAL PROGRAM EXPENSES (L12+L17+L20+L23)	22,000,310	16,771,480	20,454,119	42,505,000	52,866,950
	ADMIN/STAFF					
25	EXTERNAL STAFF	0	0	0	0	0
26	SB 669 INTERNAL STAFF ^{10, 11}	0	54,333	108,667	305,000	151,000
27	TOTAL ADMIN/STAFF (L25+L26)	0	54,333	108,667	305,000	151,000
28	SB 669 INTERAGENCY COSTS	0	0	0	0	70,000
29	TOTAL EXPENSES (L12+L17+L20+L23+L27+L28)	22,000,310	16,825,814	20,572,785	43,260,000	53,077,950
30	PROJECTED ENDING BALANCE (L1+L9-L29)	\$ 10,440,567	\$ 2,635,061	\$ 3,568,692	\$ 9,242,966	\$ 8,046,242

1. CY 2001 budget was adopted by the Commission in Resolution T-16521.

2. Adjusted CY 2001 budget is on a cash basis, estimates surcharge revenue starting October 2001 based on the new billing base for Fiscal Year 2001-2002 of \$15,181 million, reflects the costs associated with the implementation of P.U. Code Sections 270 (a) (1), 270 (b), 270(c), 274, and 275 on October 1, 2001, the actual beginning fund balance as of September 1, 2001, and program costs from September to December 2001. The adjusted CY 2001 budget is the basis for projecting the January to June 2002 program budget and fund balance.

3. The revised estimate for the Calendar Year 2001 and January to June 2002 projection are based on the the revised FY 2001-2002 projected billing base of \$15,181. The FY 2002-03 projected billing base is based on \$15,873 million, which represents a growth rate of 1.8% (UCLA Anderson Forecast, September 17, 2001) from FY 01-02.

4. Although the surcharge rate for CY 2001 is effective July 1 and the surcharge rate for Jan- June 2002 is effective Jan 1, 2002, the remittance of the surcharge revenues is expected 40 days later. In addition, the difference of \$11 million in surcharge remittance revenue between adopted CY 2001 and adjusted CY 2001 is due to lower than expected surcharge remittance from carriers in August and September 2001.

5. Investment income is assumed to be 0 once funds are deposited in the State Treasury as required by SB 669.

6. CY 2002 payments for the first 6 months of 2002 will be proposed by carriers in October 2001.

7. Program payment is based on small LECs forecast of requirements for FY 2002-2003 submitted in May 2001.

8. Assembly Bill 140 provides transfer payments to telephone corporations providing service in high cost areas. At this time, only the CHCF-A program will provide funding for this program until certain issues relating to CHCF-B are resolved by the United States. AB 140 funding level is not to exceed \$10 million per year.

9. Lockbox fee is \$1500 per month, trust fees is \$1,250 per month and annual post office lockbox fee is \$750.

10. SB 669 costs refer to costs associated with the transfer of CHCF-A funds to the State Treasury, implemented on October 1, 2001.

11. Portion of the amount for SB 669 internal staff for the first 6 months of Calendar Year 2002 includes Bldg. Addition for MSD staff allocated to the program.